



United States General Accounting Office

Report to Congressional Committees

April 1998

NONAPPROPRIATED FUNDS

Opportunities to Improve DOD's Concessions Committee

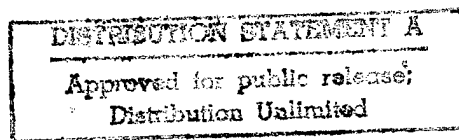


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National Security and
International Affairs Division

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April 30, 1998



Congressional Committees

In its June 16, 1997, report on the National Defense Authorization Act for Fiscal Year 1998, the Committee on National Security, House of Representatives, expressed concern that certain nonappropriated fund activities at the Pentagon reservation were being operated without adequate congressional oversight and coordination. The focus of the Committee's concern was the Department of Defense (DOD) Concessions Committee, which, through its concessionaires, generated sales of approximately \$30 million in fiscal year 1997. The report directed us to perform a comprehensive review of the Concessions Committee's operations. This report responds to that direction and addresses the Concessions Committee's (1) financial operations; (2) oversight and management; and (3) contributions to morale, welfare, and recreation (MWR) funds.

Background

The Concessions Committee succeeded the Pentagon Post Restaurant Council, which was established in 1942 by the Secretary of the War Department. The Council managed the cafeterias and allied operations, including a drugstore, newsstand, and shoe shine and repair shop. The Committee was created and operates pursuant to the Secretary of Defense's statutory authority under 10 U.S.C. 133 and is responsible for providing for the administration, operation, and control of services deemed essential to the health, welfare, and morale of employees and for the convenience of the government. The Committee is a nonappropriated fund instrumentality serving civilian and military employees in the Pentagon and the Navy Annex.

Specifically, the Committee issues contracts to others for the provision of all food services, 331 vending machines, and 33 activities providing retail goods and personal services. (See app. I for a listing of activities.) During fiscal year 1997, these activities generated sales of approximately \$30 million, resulting in nearly \$3.3 million in revenues for the Committee. The Committee uses its revenues to provide funding to six civilian MWR funds benefiting military and civilian employees working in the Pentagon and the Navy Annex after paying its operational costs.¹ The MWR funds use the contributions from the Committee to pay administrative and operating

¹The six MWR funds are the Office of the Secretary of Defense/Joint Staff, Army, Navy, Air Force, Defense Information Systems Agency, and Defense Intelligence Agency.

expenses and to subsidize welfare and recreation activities, including discount tickets to sporting and cultural events and group events.

The Director of Administration and Management, Office of the Secretary of Defense, is responsible for overseeing the Committee's operations. The Committee has eight members, including representatives from each of the military services and the Office of the Secretary of Defense (see app. II). The Committee employs four full-time staff, paid from nonappropriated funds, including a business manager who is responsible for day-to-day operations. The current manager, who had extensive experience with the Army and Air Force Exchange Service, has been employed in his current capacity for more than 10 years.

Results in Brief

The Concessions Committee's financial statements are audited by an independent public accounting firm, and those financial statements have consistently received unqualified opinions. As a result, we did not independently review the Committee's financial operations. We reviewed the independent public accounting firm's work for the last 2 fiscal years. Our review disclosed no instances where the firm did not comply in all material respects with generally accepted government auditing standards.

The Committee is not subject to the reporting and oversight requirements of other nonappropriated fund instrumentalities. Specifically, Department of Defense regulations require other nonappropriated fund instrumentalities to submit financial reports to the Office of the Assistant Secretary of Defense (Force Management and Policy). In addition, the military exchange services prepare annual reports that are submitted to the Congress. Although the Committee's operations are reviewed by a senior official in the Office of the Secretary of Defense, the Committee has not been required to submit financial information to Force Management and Policy. Therefore, the Congress does not receive information on its activities.

Also, the Committee's governing directive does not specify the procedures by which the Committee is to manage its day-to-day operations or criteria for determining the types of sales activities it may engage in. In the absence of specific operating procedures, the Committee has followed Army regulations for nonappropriated fund instrumentalities. While we did not find any instances where the Committee deviated from the Army regulations, the absence of mandatory operating regulations represents a weakness in management controls. Although the Committee has chosen to

follow these regulations, it is not required to do so and therefore cannot be held accountable for deviations.

Although the amount available for MWR contributions is directly linked to the Committee's decisions to retain earnings for reserves and equipment, there is no written policy to guide its members in making these decisions, and we could find no documentation supporting how the decisions were reached. Although the Committee has a capital expenditure budget, it does not have a long-term operating budget for use in making these decisions. At our suggestion, the Committee has indicated it will prepare a 5-year operating budget that will identify the minimum level of cash reserves that are needed to cover current operations. The Committee also plans to review its long-term capital expenditure budget in light of the ongoing Pentagon renovations. These actions may result in identifying additional resources that could be made available to morale, welfare, and recreation funds.

Financial Data Reflect a Profitable Operation

The Concessions Committee does not receive appropriated funds. It generates its revenues, about \$3.3 million for fiscal year 1997, primarily by charging concessionaires and others a fee for operating in the Pentagon or the Navy Annex.

Although the Committee does not directly receive any appropriated funds, it (1) received equipment, with a net book value of \$349,997, in 1992 and 1996, when it assumed certain operations previously performed by appropriated activities and (2) has the benefit of a board of directors and legal counsel whose salaries are paid for by appropriated activities—a practice that is consistent with other DOD nonappropriated fund instrumentalities. Serving as a committee member is a collateral duty for all of these personnel.

Between fiscal year 1994 and 1997, the Committee used, on average, over 76 percent of its revenues to pay its expenses, including general and administrative costs, and operating expenses associated with the food service and other concessionaire operations. The remaining funds were available for funding future operations, capital expenditures, and contributions to civilian MWR funds. The Committee prepares annual financial statements that detail its revenues and expenses and that are audited by an independent public accounting firm.

Independent Financial Statement Audits Performed

The Committee received unqualified opinions on its fiscal year 1997 and 1996 financial statements based on audits performed by the independent public accounting firm. Our review of the audit reports and supporting workpapers did not identify any instances where the audits appeared to deviate from generally accepted government auditing standards. The independent public accounting firm, which specializes in nonappropriated fund MWR audits, has audited the Committee's financial statements for the past 50 years. The partner-in-charge of the audits since 1993 could not recall any significant reportable problems identified during work at the Committee.

Findings or recommended operational improvements identified during the audits that do not affect the reliability of financial statements are generally communicated through management letters. On February 16, 1998, the independent public accounting firm issued a management letter to the Committee resulting from its fiscal year 1997 audit. The accounting firm recommended that, for internal control purposes, more than one person be involved in processing cash receipts from temporary concessionaires,² the food service inventory process be moved closer to year end, and a new general ledger account be created to report bad debt expense. The Committee Chairman told us he agreed with the recommendations and asked the business manager to provide information on implementation plans. No management letter was issued for fiscal year 1996.

Committee's Operations Generate Revenue and Net Income

The Committee's revenues have averaged \$2.8 million a year since 1994 while its expenses have averaged \$2.1 million. From fiscal year 1994 to 1997,³ the Committee declared MWR contributions ranging from \$500,000 to \$625,000. MWR contributions, as a percentage of net income during the same period, ranged from a high of 102 percent in fiscal year 1994 to a low of 77 percent in fiscal year 1997. Earnings that were not used to pay expenses or MWR contributions were retained by the DOD Concessions Committee for future use in purchasing new equipment, funding renovations, and paying operating expenses. Table 1 documents concessionaire sales and the Committee's revenues, expenses, net income, MWR contributions declared, and MWR contributions declared as a percentage of net income.

²Temporary concessionaires accounted for approximately 3 percent of the Concessions Committee's revenue in fiscal year 1997.

³In fiscal years 1996 and 1997, the Committee withheld \$50,000 per year of declared MWR contributions for distribution in future years when reductions in income were anticipated due to the renovation of the Pentagon.

Table 1: Concessions Committee Financial Statistics: Fiscal Years 1994 Through 1997

Fiscal year	Concessions Committee					
	Concessionaire Sales	Revenues	Expenses ^a	Net income	MWR contributions declared ^b	MWR contributions as a percentage of net income
1994	\$26,939,391	\$2,584,240	\$2,092,054	\$492,186	\$500,000	102
1995	25,976,784	2,497,988	1,938,646	559,342	500,000	89
1996	27,329,737	2,684,071	2,013,186	670,885	525,000	78
1997	29,823,130	3,266,424	2,450,836	815,588	625,000	77
Total	\$110,069,042	\$11,032,723	\$8,494,722	\$2,538,001	\$2,150,000	85

^aExpenses include adjustments for gains or losses from furniture and equipment disposal.

^bIn general, the Committee declares its MWR contributions in 1 year for distribution in the next.

Source: DOD Concessions Committee information.

Revenues Are Primarily From Concessionaire Contracts

All of the Committee's revenues result from fees it charges concessionaires for operating in the Pentagon and the Navy Annex. The Committee does not engage in resale activities. Rather, the Committee competitively solicits proposals, seeking a fee arrangement that is based on the type of activity—a percentage of sales and/or a flat fee that is based on space occupied. Following its review of the competitive proposals, it makes a tentative selection that is submitted to the Director of Administration and Management, Office of the Secretary of Defense, for final approval. Once approved, the fee arrangement becomes part of the contractual agreement between the Committee and the concessionaire. During fiscal year 1997, concessionaire activities accounted for over \$3.1 million of the Committee's total \$3.3 million in revenues. Interest earnings accounted for most of the remaining revenue.

Most Expenses Directly Relate to Concessionaire Activity

The Committee's major expenses involve food service concessions expenses, such as depreciation and equipment repair and maintenance; other concessions expenses, such as space rent,⁴ parking lot costs, and vending commission expenses; and administrative and general expenses, such as salaries and benefits. During fiscal year 1997, expenses totaled about \$2.5 million (76 percent of total revenue), of which \$2.1 million

⁴Space rent represents the Committee's payments to the Washington Headquarters Services for costs associated with buildings operations, including utilities and depreciation. This expense is set at 37.5 percent of the Committee's prior year revenue.

represented concessionaire expenses and \$0.4 million represented administrative and general expenses.

Reporting and Oversight Requirements Differ From Other Nonappropriated Fund Instrumentalities

In its June 16, 1997, report, the National Security Committee, House of Representatives, expressed concern that the Concessions Committee was operating without adequate congressional oversight and coordination. Although the Committee's operations are reviewed by a high level official within the Office of the Secretary of Defense, the Committee is not subject to the reporting and oversight requirements of other nonappropriated fund instrumentalities. Information on the financial activities of the other nonappropriated fund instrumentalities is reviewed centrally within the Office of the Secretary of Defense and submitted to the Congress through the military services.

Other nonappropriated fund instrumentalities are required to submit financial data to the Office of the Assistant Secretary of Defense for Force Management and Policy,⁵ which uses this information to perform statistical comparative analyses and to monitor the performance indicators. These instrumentalities also submit information through the heads of their military components that is consolidated into reports to the Congress. For example, the Army and Air Force Exchange Service prepares an annual report summarizing its resale and concessions activities in the United States and overseas.

The Committee's operations are overseen by the Director, Administration and Management, Office of the Secretary of Defense. The Director's responsibilities include approving the minutes of all Committee meetings and all contracts and other transactions that exceed \$2,500. The Director is the final decisionmaker for all business activities. Reports of the Committee's activities and plans are not submitted to any other offices within the Office of the Secretary of Defense or included in any external reports. Similarly, the Committee's financial statements are not submitted to any other office or consolidated into external financial reports.

Operating Procedures Are Not Specified

The Committee's current operating guidance does not specify the procedures by which the Committee is to exercise its authority or the types of goods and services that can be offered by concessionaires. In the absence of specific operating procedures, the Committee has elected to

⁵Financial Management of Morale, Welfare, and Recreational Activities, DOD Instruction 7000.12, May 27, 1987.

follow Army regulations applicable to nonappropriated fund instrumentalities. While the Committee has chosen to follow these regulations, it is not required to do so and therefore cannot be held accountable for deviations.

The Committee derives its operating authority from a DOD directive.⁶ This directive authorizes the Committee to “operate directly or through an independent contractor restaurants, cafeterias, snack bars, and dining rooms in the Pentagon Building.” It also authorizes the Committee to provide commercial type concessions. The directive does not specify the procedures by which the Committee is to plan, organize, direct, and control day-to-day operations, nor does it provide specific guidance on the types of goods and services that can be offered through its concessionaires.

In the absence of required operating procedures, and based on directions provided by the Deputy Chief of Staff of the War Department in 1942, the Committee has historically followed the Army Regulations 215 Series—Nonappropriated Fund Instrumentalities—Morale, Welfare, and Recreation with its subsections that prescribe procedures for day-to-day operations involving personnel practices, contracting, and accounting and reporting. The purpose of these regulations is to establish policies and procedures governing Army MWR activities and nonappropriated fund instrumentalities to include those for which the Army has been designated executive agent.

The June 16, 1997, report on the National Defense Authorization Act for Fiscal Year 1998, by the Committee on National Security, House of Representatives, also expressed concern that the Concessions Committee may not be operating in consonance with congressional resale policy. Our work indicates that the Committee is not required to follow DOD regulations governing resale policy. The Concessions Committee’s legal counsel told us that the Committee is not a resale activity because it operates through concessionaires and does not engage in direct sales. Although the Committee is not required to so, the business manager told us that the Committee has elected to follow DOD Directive 1330.9 (Dec. 15, 1986), which establishes uniform policies for operating armed services exchanges. This regulation lists the authorized types of goods and services that can be offered for resale by the military exchanges.

⁶In 1951 DOD Directive 5140.2 established guidance for the newly named DOD Concessions Committee. This directive was superseded in August 1958 by DOD Directive 5120.18, which was revised in April 1980 and October 1997.

No Written Policy for Calculating MWR Contributions

There is no written policy or long-term operating budget to guide the Committee's members in deciding annual contributions to MWR funds, and we found no documentation discussing how decisions were reached. Over the past 4 fiscal years, the Committee has contributed fewer dollars as a percentage of its income to the MWR funds, while significantly increasing the amount retained as reserves. The Committee Chairman told us the members' decisions were guided by the need to fund planned capital improvements and maintain stable MWR contributions during the Pentagon renovation. However, without proper long-term operating budgets, the extent to which such reserves are necessary is not clear. If the Committee's need for reserves are overstated, additional resources could be made available to MWR funds.

Annually, the Committee decides how much of the year's net income will be distributed to MWR activities and how much will be reserved for future needs. According to the Committee Chairman, this decision is based on a number of factors, including known capital expenditure requirements and the needs of the MWR funds. Once the Committee decides on the division of its net income, it requests approval from the Director, Administration and Management, Office of the Secretary of Defense. The approved MWR contribution is stated in the Committee's minutes, but there is no discussion supporting how the members arrived at this decision.

As of September 30, 1997, the Committee had a total of \$3.2 million in cash reserves—\$1.3 million that was not designated for a specific purpose but would be available for payments of future operating expenses and MWR contributions and \$1.9 million for the repair, maintenance, and replacement of equipment. Although the Committee does not have a long-term operating budget for estimating its future operating cash reserve needs, it does have a capital expenditure program budget, which estimates it will need \$3 million through fiscal year 2002 and another \$1.6 million beyond that date to fund equipment and related expenditures.

Despite the current balances in its reserves, the Committee is concerned about its ability to fund planned capital improvements and maintain stable MWR contributions during the planned 10-year renovation of the Pentagon. As a result, the Committee withheld and placed in reserve \$50,000 of declared MWR contributions in both fiscal years 1997 and 1996. The Committee did this to enable it to have extra funds available to supplement MWR contributions in future years when reductions in income are anticipated. Specifically, the Committee anticipates income will decrease during the renovation of the Pentagon because 20 percent of the

Pentagon staff will be temporarily relocated to office space outside of the building.

Because of the uncertainties related to the renovation, the Committee Chairman has asked the business manager to reassess the capital expenditure program budget. At our suggestion, the business manager agreed to request its independent public accountant's assistance in preparing a 5-year operating budget that would identify the minimum level of cash reserves needed to cover normal operations. These analyses should be documented and should be used in future decisions regarding reserve amounts and MWR contributions.

Conclusions

The Committee provides significant contributions to six MWR funds. Its financial operations have been audited, and our review disclosed no instances where the independent public accounting firm did not comply in all material respects with generally accepted government auditing standards. However, there are opportunities to improve the Committee's oversight and operations because the Committee is not subject to the same reporting requirements as other nonappropriated fund instrumentalities and the Congress does not receive information on its activities. Also, the absence of specified operating procedures, including guidance on the types of goods and services that can be offered, represents a weakness in management controls. Although the amount available for MWR contributions is directly linked to the Committee's decisions to retain earnings for reserves and equipment, there is no written policy to guide its members in making these decisions, and we could find no documentation supporting how the decisions were reached. Furthermore, the Committee does not have a long-term operating budget for use in making these decisions.

Recommendations

We recommend that the Secretary of Defense (1) require the Committee to comply with the same reporting requirements of other nonappropriated fund instrumentalities, thereby ensuring that the Congress has the opportunity to review the Committee's activities; (2) specify operating regulations to be followed by the Committee in its day-to-day operations, including guidance on the types of goods and services that can be offered; and (3) require the Committee to develop a policy and a long-term operating budget to guide members in making MWR contributions and cash reserve decisions and to document in its minutes the rationale for those decisions.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from DOD (see app. III.) DOD described actions it plans to take in reference to our recommendations. Specifically, it will modify the DOD issuance governing the operations of the Concessions Committee to (1) require the Committee to comply with the same reporting requirements of other nonappropriated fund instrumentalities and (2) specify operating regulations to be followed by the Committee in its day-to-day operations, including guidance on the types of goods and services that can be offered. Once complete, these actions will satisfy the intent of our first two recommendations.

It also will modify the issuance governing the Committee's operations to make explicit its commitment to contribute all proceeds not required for the Committee's operations to MWR activities. When complete, this action would partially address, but not satisfy, the intent of our recommendation. We believe that the Committee also needs to develop a long-term operating budget for use in making and documenting its decisions regarding retained earnings and MWR contributions. We have revised the third recommendation in the final report to clearly reflect our intent.

Scope and Methodology

Our objectives were to assess the Concessions Committee's (1) financial operations and audited statements; (2) management and oversight procedures; and (3) MWR contributions.

To assess the Committee's financial operations, we interviewed its business manager, operating accountant, and independent public accountant. We reviewed the financial audit reports and their work papers, unaudited monthly financial reports, and corresponding year-end Committee meeting minutes for fiscal years 1996 and 1997. In addition, we compared the Committee's expected cash reserves to its budgeted capital expenditures and projected MWR contributions through 2002.

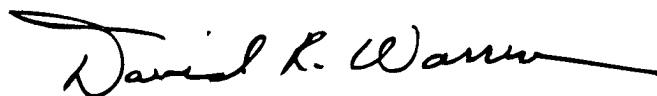
To assess the Committee's operations and management processes, we interviewed the Committee's business manager and officials from military exchanges and other Defense nonappropriated fund instrumentalities. We used flowchart methods to trace and document the Concessions Committee's management procedures, participated in a tour of activities, and obtained and reviewed military exchanges' and other nonappropriated fund instrumentalities' regulations. We used this information to compare the Committee's management structure and operations with those of the military exchanges and other Defense nonappropriated fund instrumentalities' operations.

To assess the Committee's MWR contributions, we documented the amounts provided for the past 4 fiscal years and interviewed the Committee's business manager to discuss the rationale for those decisions. We also interviewed officials from military exchanges and other Defense nonappropriated fund instrumentalities to discuss their respective MWR distribution and retained earnings policies. We compared these policies to that of the Concessions Committee.

Our work was conducted at the Pentagon; Army and Air Force Exchange Service Headquarters, Dallas, Texas; the Navy Exchange Service Command's Washington office; and the Committee's independent public accounting firm. Our work was also conducted from September 1997 to March 1998 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Chairman of the Concessions Committee; and the Director, Office of Management and Budget. We will make copies available to others upon request.

Please contact me at (202) 512-8412 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix IV.

A handwritten signature in black ink, reading "David R. Warren". The signature is fluid and cursive, with a long horizontal stroke at the end.

David R. Warren, Director
Defense Management Issues

List of Congressional Committees

The Honorable Strom Thurmond
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Ted Stevens
Chairman
The Honorable Daniel Inouye
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Floyd Spence
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on National Security
House of Representatives

The Honorable C. W. Bill Young
Chairman
The Honorable John P. Murtha
Ranking Minority Member
Subcommittee on National Security
Committee on Appropriations
House of Representatives

Contents

Letter	1	
Appendix I List of Types of Concessions Activities	16	
Appendix II List of Concessions Committee Members	17	
Appendix III Comments From the Department of Defense	18	
Appendix IV Major Contributors to This Report	22	
Table	Table 1: Concessions Committee Financial Statistics: Fiscal Years 1994 through 1997	5

Abbreviations

DOD	Department of Defense
MWR	morale, welfare, and recreation

List of Types of Concessions Activities

Committee Activities at the Pentagon

Action Resume	Army/Air Force Mutual Aid
BTG Micro Systems, Inc.	Cards'N Things
Chateau's Ladies Store	Carlson Wagonlit Travel
Cosmetic Center	Conklyn's Florist
Dental Office	David Mann Jeweler
Fannie May Candies	Fort America Military Memorabilia
Gretel's Bake Shop	H&R Block Tax Service (Seasonal)
Hair Care Center	Market Center (Periodic Rover)
Market Corner (Periodic Rover)	Market Square (Periodic Rover)
Moto Photo	Monument Visitor Parking
NationsBank	Pentagon Book Store
Pentagon Cleaners	Pentagon Vision Center
Priority Assist Car Buying Service	Rite Aid Pharmacy
Sharon Anne Gifts	Shoe Shine/Repair
ARAMARK Corporation	

Committee Activities at the Navy Annex

Chateau's Annex Ladies Store	Conklyn's Florist
DeFluri's Card and Gift Shop	Hair Care Center
Market Place (Periodic Rover)	

List of Concessions Committee Members

1. Chairman

Deputy Chief Financial Officer, Office of the Secretary of Defense (DOD)
Comptroller

2. Representative for Director of Administration and Management, Office of the Secretary of Defense

Deputy Director, Real Estate and Facilities Directorate, Washington
Headquarters Services, Office of the Secretary of Defense

3. Army member

Office of the Secretary of the Army, Administrative Assistant

4. Army member

Chief, Executive Actions Division Management Directorate, Office of the
Chief of Staff of the Army

5. Navy member

Assistant for Administration, Office of Under Secretary of Navy

6. Marine Corps member

Secretary of the General Staff, Headquarters United States Marine Corps

7. Air Force member

Secretary of the Air Force, Administrative Assistant

8. Air Force member

Vice Commander Headquarters 11th Support Wing (Air Force District of
Washington)

Legal advisor

Senior Counsel, Office of General Counsel, Washington Headquarters
Services (nonvoting member)

Business manager

(nonvoting member)

Comments From the Department of Defense

DEPARTMENT OF DEFENSE CONCESSIONS COMMITTEE

THE PENTAGON, WASHINGTON, D. C. 20301

APR 6 1998

Mr. David R. Warren
Director, Defense Acquisitions Issues
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Warren:

This is the Department of Defense response to the General Accounting Office (GAO) draft report, "NONAPPROPRIATED FUNDS: Opportunities to Improve DoD's Concessions Committee," dated March 2, 1998, (GAO Code 709302) OSD Case 1554.

The GAO report reaffirms that the financial statements of the Department of Defense's Concessions Committee are audited by an independent public accounting firm applying generally accepted government auditing standards. The report also advises that the Committee's financial statements consistently have received unqualified ("clean") opinions. Additionally, the report advises that the independent public accounting firm's partner-in-charge of the audits could not recall any significant reportable problems that were identified in the current, or prior, year audits of the Committee's operations and their financial statements. Further, copies of the financial statements are provided to representatives of each of the Military Departments as well as senior officials within the Office of the Secretary of Defense.

The GAO report notes that the Committee follows procedures contained in Army regulations for nonappropriated fund instrumentalities. The report also states that the GAO did not find any instances where the Committee deviated from applicable Army regulations.

The Committee's practice has been to provide all net proceeds, that are not required for future operations, to be contributed to Morale, Welfare and Recreation activities. During the period 1988 through 1997, the Committee provided in excess of 83 percent of its net proceeds to such activities. The Committee's practice also has been to explicitly state, in its minutes, the amounts approved for contributions to Morale, Welfare and Recreation activities, as well as amounts retained for future operations. As noted in the report, such amounts must be approved by a senior official within the Office of the Secretary of Defense.

Appendix III
Comments From the Department of Defense

Enclosed are detailed comments on the recommendation contained in the draft report. The Department appreciates the opportunity to comment on the draft report.

Sincerely,



Nelson Toye
Chairman, Department of Defense
Concessions Committee

Enclosure

**GENERAL ACCOUNTING OFFICE DRAFT REPORT
"NONAPPROPRIATED FUNDS: OPPORTUNITIES TO IMPROVE DOD'S
CONCESSIONS COMMITTEE," DATED MARCH 2, 1998
(GAO CODE 709302) OSD CASE 1554**

**DEPARTMENT OF DEFENSE COMMENTS ON
THE DRAFT REPORT**

RECOMMENDATION: The GAO recommended that the Secretary of Defense (1) require the Committee to comply with the same reporting requirements of other nonappropriated fund instrumentalities thereby ensuring that Congress has the opportunity to review the Committee's activities; (2) specify operating regulations to be followed by the Committee in its day-to-day operations including guidance on the types of goods and services that can be offered; and (3) require the Committee to develop a policy to guide members in making MWR contributions and cash reserve decisions and to document in its minutes and to interested parties the rationale for those decisions. (pp. 14-15/GAO Draft Report)

DOD RESPONSE: The Department of Defense Concessions Committee currently complies with the same reporting requirements as other nonappropriated fund instrumentalities, thereby ensuring that Congress has the opportunity to review the Committee's activities. The requirement to submit, to the Office of the Assistant Secretary of Defense (Force Management and Policy), a copy of the Committee's financial reports was not imposed on the Department of Defense Concessions Committee. Additionally, until recently, the Department of Defense Concessions Committee was not aware that such a reporting requirement was imposed on the Department's other nonappropriated fund instrumentalities. When this inconsistency was brought to the attention of the Chairman of the Concessions Committee, the Committee voluntarily complied with the reporting requirement imposed on other DoD nonappropriated fund instrumentalities, and submitted, to the Office of the Assistant Secretary of Defense (Force Management and Policy), a copy of the Committee's most recent annual financial statement. Additionally, the Committee agreed that copies of the annual financial statement would continue to be submitted in the future. Further, this requirement will be incorporated into the DoD issuance governing the operations of the Committee.

Consistent with direction provided by the Deputy Chief of Staff of the War Department in 1942, the Department of Defense Concessions Committee has followed operating procedures contained in Army regulations. Although that direction was not formally incorporated into the DoD issuance governing the operations of the Concessions Committee, the Committee has been bound by, and adhered to, that direction since 1942. Nevertheless, the DoD issuance governing the operations of the Concessions Committee will be amended to explicitly incorporate and address policies to be followed in the day-to-day operations of the Committee, to include guidance on the types of goods and services to be offered.

Now on p. 9.

Appendix III
Comments From the Department of Defense

The Committee long has operated under a policy whereby all net proceeds not required for the operations of the Committee would be provided to Morale, Welfare and Recreation activities. Further, the Committee's minutes consistently have documented how much of the net proceeds have been retained for operations and how much have been designated for contributions to Morale, Welfare and Recreation activities. Additionally, the percent of the net proceeds that the Committee has provided to Morale, Welfare and Recreation activities has exceeded, substantially, guidance that governs comparable contributions by the Army and Air Force Exchange Service. For example, applicable guidance for the Army and Air Force Exchange Service provides that 50 percent of its general concessions net proceeds should be provided to Morale, Welfare and Recreation activities. During the period 1988 through 1997, the Department of Defense Concessions Committee provided over 83 percent of its net proceeds to Morale, Welfare and Recreation activities. While the DoD issuance governing the operations of the Committee does not explicitly mandate a minimum amount to be provided to Morale, Welfare and Recreation activities, the Committee's past practices have demonstrated a consistent, and continuing, commitment to contributing to Morale, Welfare and Recreation activities all proceeds not required for the Committee's operations. The DoD issuance governing the operations of the Committee will be amended to make this commitment explicit.

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